HOUSING MARKET OUTLOOK
Kitchener and Guelph CMAs

CANADA MORTGAGE AND HOUSING CORPORATION

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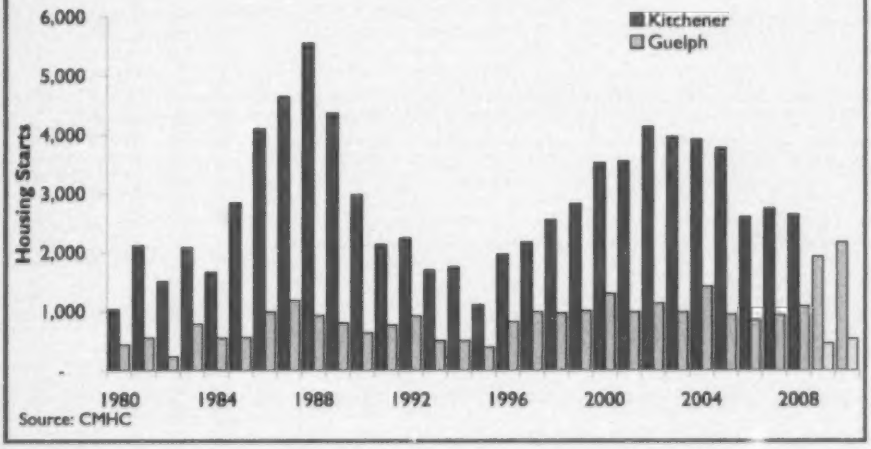
New Home Market

Housing Starts to Increase

Housing starts in the Kitchener and Guelph Census Metropolitan Areas in 2010 will increase from the relatively low level recorded in 2009. In the Kitchener CMA, housing starts will reach 2,170 in 2010, up 12 per cent from the expected 1,930 starts in 2009. Housing starts in the Guelph CMA will increase by 16 per cent to 535 in 2010 from the forecast 460 starts in 2009. Slowly improving employment, more spill-over from the resale home market, low inventories and low mortgage rates will combine to push housing starts above the levels recorded in 2009. Starts of both single-detached and denser forms of

Figure 1

Housing Starts to Improve in 2010



Source: CMHC

[1] The forecasts included in this document are based on information available as of October 1, 2009.

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housing will be up in 2010. Starts will move higher over the next few years, more in line with population growth and household formation.

Single-detached housing starts in the Kitchener CMA will increase by ten per cent to 1,100 homes, while Guelph CMA detached starts will grow by 10 per cent to 275 units. Although these increases in detached starts seem significant, starts will still be well below levels recorded in the first half of the decade. While the new construction market has been slow to react to the tighter resale market conditions after the first quarter of 2009, the expected spill-over demand from the resale home market will result in stronger 2010 starts. Mortgage rates will remain near historically low levels in 2010, although rising slowly throughout the year, and combined with little price growth for new detached homes, affordability will play a part in increased demand for detached homes. Inventories of new single-detached homes have not increased significantly, as was seen in the early 1990s. As a result, any demand for new detached homes must be met through new construction.

The average price of a newly-completed single-detached home in the Kitchener CMA will increase by a modest 1.4 per cent in 2010 to $350,000 after declining in 2009. In the Guelph CMA, detached prices will continue to increase at a slow but steady pace, growing by less than one per cent to $378,000. In the Kitchener CMA, the mix of houses being built has affected the average price of detached homes. Homebuyers are looking for and builders are building more modestly-priced homes. Demand for homes priced above $400,000 has fallen sharply. The New Housing Price Index (NHPI) which measures the change in price of constant quality homes will increase by one per cent in 2010.

Construction will shift away from single-detached homes to building forms which use land more intensely, supported both by government initiatives which emphasize intensification and by shifts in demand. Semi-detached homes, townhouses and apartments are a more affordable option to higher-priced single-detached homes. Apartment starts in the Kitchener CMA will increase by close to 40 per cent in 2010 due to an increase in construction of condominium apartments. At least two major condominium projects will begin construction in 2010. Condominium apartments are more affordable than other types of housing. Retirees, empty-nesters and first-time buyers are attracted to the condominium lifestyle. The construction of condominium apartments is in line with the Region of Waterloo's goal to direct a greater share of urban development towards existing built-up areas. Some apartment construction should return to the Guelph CMA in 2010 after a complete absence of apartment starts in 2009. In both CMAs, semi-detached and townhouse construction in 2010 will remain at about the same level as in 2009.

Resale Home Market

Sales to Moderate

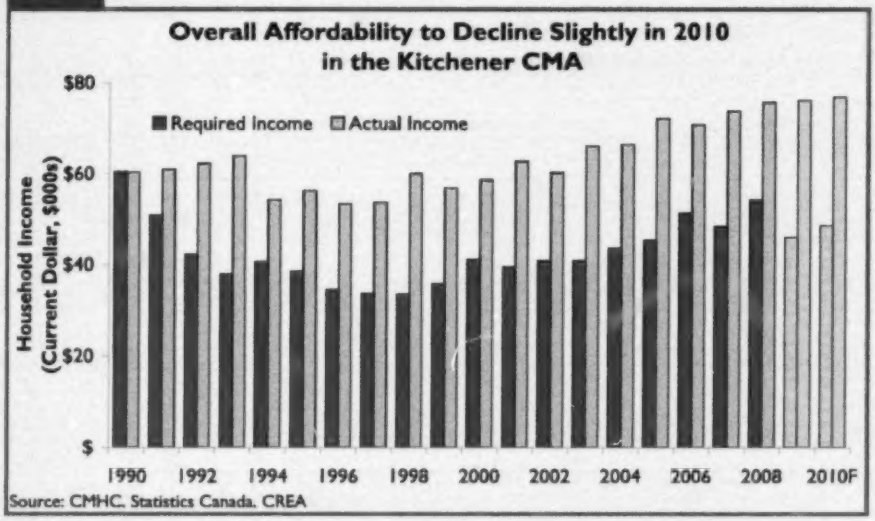
The resale market in Kitchener-Guelph will moderate again in 2010. Sales of existing homes through the Kitchener-Waterloo Real Estate Board (KWREB) will decline by a little over three per cent to 6,000 resales in 2010, while sales through the Guelph and District Real Estate Board will slip by 3.7 per cent to 2,600. First quarter sales were very low as economic uncertainty weighed on everyone, but second quarter and third quarter numbers were much stronger as homebuyers who had stayed on the sidelines in late 2008 and early 2009 were enticed back into the market.

Figure 2

Sales Volumes Lower, Prices Higher in 2010

Source: CMHC, CREA

Figure 3



Affordability will sustain sales at a high level, but economic uncertainty will lead to a modest decline in sales. Mortgage rates will remain near historically low levels and home price growth will be modest. The income required to purchase a home will remain below levels seen in 2008. Some homebuyers will bring their home buying intentions forward due to the low mortgage rates and the expectation of higher mortgage rates in the future. Government programs for first-time buyers including a $750 tax credit and the ability to withdraw $25,000 from their RRSPs will also stimulate demand. But, it is homebuyer concern about the uncertain economy and employment prospects that will linger through the next few quarters which will primarily prevent existing home sales from growing in 2010.

The supply of resale homes will move marginally lower in 20[illegible], but remain at a high level. New listings will be lower since fewer homeowners will be moving into new homes and consequently listing their current homes. However, with the market remaining fairly tight, potential sellers will continue to see opportunities for listing.

While both sales and new listings will decline in 2010, the sales-to-new listings ratio (SNLR), a leading indicator of price growth and a measure of market state, will be close to 60 per cent in 2010. The SNLR will remain near the boundary between a balanced and a sellers' market – indicative of future price growth slightly above inflation.

Due to tighter resale market conditions, existing home prices will increase moderately in the Kitchener-Guelph area in 2010, after less than stellar price growth in 2009. The average price of a resale home in the KW Board will increase by 2.9 per cent to $280,000. Guelph prices will increase by 2.7 per cent to $271,000. Average prices in both areas will reach the highest level ever in 2010.

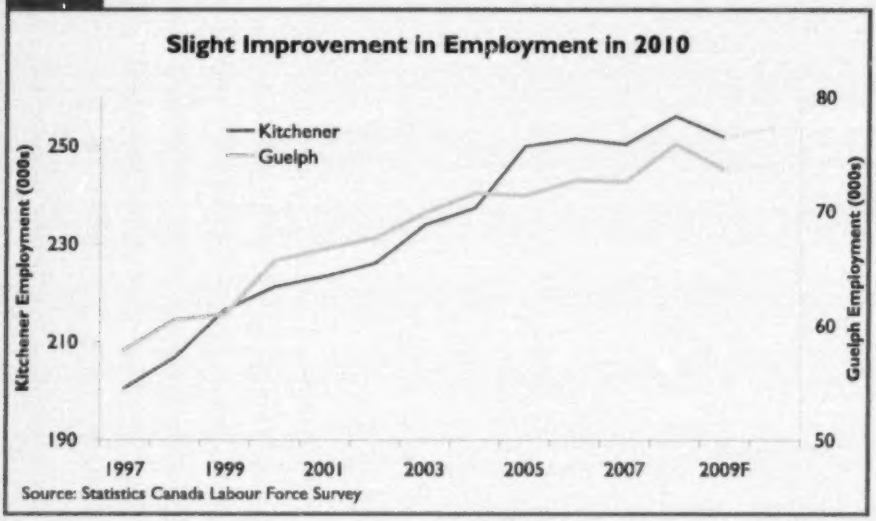
Economic Trends

Improved Economic Outlook

The outlook for the economy has improved since the spring. Growth in the Ontario economy is expected to resume in 2010 at a rate of 2.2 per cent. While most of this growth will be policy induced, consumer spending and the export sector should show some stability. Kitchener CMA business bankruptcies were down through the first half of 2009, but consumer bankruptcies continued to increase.

Figure 4

Figure 5



Employment

Employment growth in the Kitchener-Guelph area is expected to remain modest throughout most of 2010. Employment in the Kitchener CMA is forecast to increase by only 0.9 per cent in 2010 after a decline of 1.7 per cent in 2009, while Guelph CMA employment is expected to increase by 0.7 per cent in 2010 after a decline of three per cent in 2009. As the labour force is also expected to continue to increase, the unemployment rate will remain above nine per cent in the Kitchener CMA and eight per cent in the Guelph CMA in 2010.

As the economies of the US and the rest of the world begin to grow, demand for manufactured goods will begin to improve. The service sector will be the first to show modest growth, followed by a slowly improving goods sector.

Infrastructure investments worth more than $450 million in the Kitchener and Guelph CMAs will help boost employment in the construction sector through 2010. Job growth will also continue in the high tech sector as there are currently nearly 2,000 vacancies in the professional, scientific and technical sector.

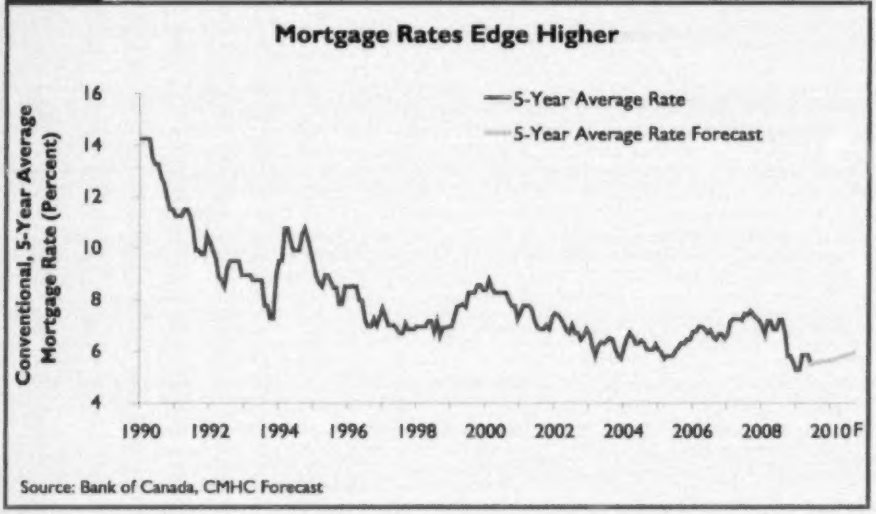
Average Weekly Earnings

High unemployment, an increased percentage of part-time jobs and less inflationary pressures will keep wage growth slow in 2010. Wage growth in the Kitchener CMA is expected to be near one per cent in 2010 after little to no growth in 2009, while Guelph CMA wage growth is expected to be near one per cent in 2010 after increasing close to two per cent in 2009. The high unemployment and weak wage growth will somewhat dampen housing demand, but low mortgage rates will partially offset this effect.

Migration

The Kitchener CMA remains attractive to migrants. Net migration into the Kitchener CMA is expected to reach close to 3,000 persons in 2010. Inter-provincial migration, especially to Western Canada, has slowed population growth over the last several years. On the other hand, international migration has been the driving force behind migration to the CMA. Despite the currently low rate of employment growth, a diverse economy and one of the highest employment rates in Ontario continue to attract migrants. Migration into the Guelph CMA has declined sharply in the last three years. Net migration into the Guelph CMA is expected to reach close to 425 persons in 2010. While inter-provincial migration to Western Canada has slowed population growth over the last several years, intra-provincial migration due to the price differential of homes between Toronto and Guelph has offset some of these losses.

Figure 6



Source: Bank of Canada, CMHC Forecast

Mortgage Rate Outlook

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. The Bank has committed to keeping this rate at 0.25 per cent through the middle of 2010 unless inflationary pressures warrant an increase.

Mortgage rates have fallen over the course of 2009, but are now expected to remain relatively stable for the rest of the year. Posted mortgage rates will gradually increase through 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate will be in the 3.50-4.25 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.50-6.00 per cent range.

Forecast Summary Kitchener CMA Fall 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	6,115	7,031	6,269	6,200	-1.1	6,000	-3.2
MLS® New Listings	9,896	10,164	10,521	10,200	-3.1	10,000	-2.0
MLS® Average Price ($)	237,913	252,429	271,222	272,000	0.3	280,000	2.9
New Home Market							
Starts:							
Single-Detached	1,542	1,159	1,446	1,000	-30.8	1,100	10.0
Multiples	1,057	1,581	1,188	930	-21.7	1,070	15.1
Semi-Detached	210	234	82	70	-14.6	70	0.0
Row/Townhouse	545	594	569	500	-12.1	500	0.0
Apartments	302	753	537	360	-33.0	500	38.9
Starts - Total	2,599	2,740	2,634	1,930	-26.7	2,170	12.4
Average Price ($):							
Single-Detached	313,149	345,819	352,644	345,000	-2.2	350,000	1.4
New Housing Price Index (% chg.)	4.1	1.5	2.4	0.0	-	1.0	-
Rental Market							
October Vacancy Rate (%)	3.3	2.7	1.8	1.6	-0.2	1.5	-0.1
Two-bedroom Average Rent (October) ($)	824	829	845	860	-	875	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.03	-2.67	3.83	-0.20
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.55	-1.51	5.75	0.20
Annual Employment Level	251,400	250,300	256,100	251,700	-1.7	253,900	0.9
Employment Growth (%)	0.6	-0.4	2.3	-1.7	-	0.9	-
Unemployment rate (%)	5.2	5.5	6.0	9.8	-	9.6	-
Net Migration [1]	2,981	3,129	3,000	3,000	0.0	3,000	0.0

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** Percent change > 200%

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2007 migration data is forecasted

Forecast Summary Guelph CMA Fall 2009	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	2,859	3,088	2,794	2,700	-3.4	2,600	-3.7
MLS® New Listings	4,771	4,704	4,830	4,500	-6.8	4,400	-2.2
MLS® Average Price ($)	245,676	262,186	267,329	264,000	-1.2	271,000	2.7
New Home Market							
Starts:							
Single-Detached	485	575	425	250	-41.2	275	10.0
Multiples	379	366	662	210	-68.3	260	23.8
Semi-Detached	80	58	44	70	59.1	60	-14.3
Row/Townhouse	205	274	160	140	-12.5	150	7.1
Apartments	94	34	458	0	n/a	50	n/a
Starts - Total	864	941	1,087	460	-57.7	535	16.3
Average Price ($):							
Single-Detached	342,330	360,882	371,957	375,000	0.8	378,000	0.8
New Housing Price Index (% chg.) (Ont.)	3.7	2.6	3.5	n/a	-	n/a	-
Rental Market							
October Vacancy Rate (%)	2.8	1.9	2.3	2.0	-0.3	1.9	-0.1
Two-bedroom Average Rent (October) ($)	839	848	869	885	-	900	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.03	-2.67	3.83	-0.20
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.55	-1.51	5.75	0.20
Annual Employment Level	72,700	72,600	75,900	73,600	-3.0	74,100	0.7
Employment Growth (%)	1.8	-0.1	4.5	-3.0	-	0.7	-
Unemployment rate (%)	5.5	5.7	5.5	8.2	-	8.1	-
Net Migration (Ont.) [1]	84,048	87,174	90,196	82,858	-8.1	85,600	3.3

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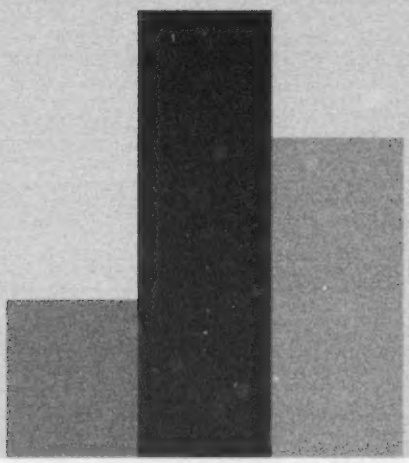

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